



# Washington State Auditor's Office

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## Accountability Audit Report

# Lake Quinault School District No. 97

Grays Harbor County

For the period September 1, 2014 through August 31, 2015

Published April 4, 2016

Report No. 1016414





## Washington State Auditor's Office

April 4, 2016

Superintendent and Board of Directors  
Lake Quinault School District No. 97  
Amanda Park, Washington

### Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for District operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the District's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

JAN M. JUTTE, CPA, CGFM  
DEPUTY STATE AUDITOR  
OLYMPIA, WA

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## AUDIT SUMMARY

### Results in brief

In most areas we audited, District operations complied with applicable requirements and provided adequate safeguarding of public resources. The District also complied with state laws and regulations and its own policies and procedures in most areas we examined.

However, we identified areas in which the District could make improvements.

We recommended the District continue to work closely with Office of Superintendent of Public Instruction and Educational Service District 113 to improve its fund balance and create lasting financial stability.

These recommendations were included in our report as a finding.

There are also certain matters came to our attention that are currently under investigation.

### About the audit

This report contains the results of our independent accountability audit of Lake Quinault School District No. 97 from September 1, 2014 through August 31, 2015.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the District's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Open public meeting compliance
- Revenue and expenditure trend
- Financial condition
- Cash receipting
- Credit cards and accounts
- Procurement - public works
- Self-insurance
- Apportionment - staff mix
- Payroll

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### Lake Quinault School District No. 97 Grays Harbor County September 1, 2014 through August 31, 2015

#### **2015-001 The District's financial condition puts it at risk of not being able to meet financial obligations and maintain current service levels.**

##### *Background*

We have reported concerns regarding the District's financial condition in the past three accountability audits. During the current audit, we noted that the District continues to improve its general fund balance and is no longer relying on interest-bearing warrants from the County Treasurer. However, several elements of a critical financial condition were evident.

##### *Description of Condition*

The District's ending general fund cash balance is as follows:

Fiscal Year	General Fund Ending Balance
2013	\$ 45,701
2014	\$ 53,637
2015	\$107,750

The general fund ending balance as of January 31, 2016 was \$63,088. This is an improvement from the previous audit. Also, the fund balance sufficiency has improved from six days of expenditures to 18 days; however the benchmark for sufficient fund balance has been set at 60 days of expenditure in the Government Finance Officers Association Best Practice guidance.

The District continues in binding conditions which requires it to contract with an administrator and submit a financial condition plan to the Office of Superintendent of Public Instruction (OSPI).

Additionally, the Board has found that there are, "student safety and security concerns, the need to improve the educational environment due to a deteriorating and outdated facility, and failing building infrastructure." The District lacks sufficient money to pay for such projects, especially since a proposed maintenance and operations bond, intended to fund such projects, was rejected by the voters in November 2015. The existing conditions along with lack of funds pose an adverse financial condition.

## ***Cause of Condition***

District's revenues continue to be insufficient to cover operational expenses or maintain an adequate fund balance. Poor financial planning has left the District with an unstable fund balance and financial position.

## ***Effect of Condition***

The District is at risk of not being able to meet its financial obligations and maintain current service levels. We noted other factors, such as binding conditions with OSPI, and interest accrual on its credit cards.

Additionally, the District's adverse financial condition contributed to the following:

- In February 2015 the District's general fund balance was negative \$112,656, due to an IRS payback of \$71,000.
- On July 27, 2015 the IRS seized all the District's funds that were in the Bank of the Pacific, including, but not limited to, the General and ASB funds. All of the money the IRS has taken is due to penalties and interest charges.

## ***Recommendation***

We recommend the District continue to work closely with OSPI and Educational Service District 113 on ways to improve its fund balance and create lasting financial stability.

## ***School District's Response***

*While the District agrees to the general nature of the finding, a weak financial condition, it does not concur with the "Description of Condition"*

1. *The General fund ending balance as of January 31, 2016 was \$63,088, but at the end of February 29, 2016 it was \$180,995 and the trend since November 2015 was upward. The District expects to have a 4% cash balance at the end of this year with a potential target of an 8% cash balance in two years.*
2. *The District is like most districts in this state. To complete a modernization of an old building requires a modernization bond or a capital project levy. Few medium or small districts have over a million dollars in capital funds to complete large scale projects. The district has been able to meet minimum needs for repair of the facility. The District is currently holding community meetings to help achieve a consensus on*

*how they want to proceed in modernizing the facility. This is a top priority for the Board of Directors for the remainder of the school year.*

*While the District is still in financial recovery and will continue to work with OSPI and ESD 113 under binding conditions, the District is making significant progress. The board of Directors receive a complete financial update each month. A new business manager was hired last April 2015 and is attending the ESD 113's Business Manager Academy, as well as WASBO workshops. The District's goal is to be off "binding conditions" by the end of the School Year 2016-2017.*

### ***Auditor's Remarks***

We appreciate the District's response and recognize that the District is committed to improving its fund balance. We also would like to recognize the District for improving their fund balance and financial condition since our last audit. The District is implementing necessary changes to obtain financial stability.

We also wish to thank District management for their cooperation and assistance during our audit. We look forward to working with the District on this issue and will follow up on it during the next audit.

## STATUS OF PRIOR AUDIT FINDINGS

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Lake Quinault School District No. 97. The State Auditor's Office has reviewed the status as presented by the District.

<b>Audit Period:</b> 9/1/2013-8/31/2014	<b>Report Ref. No.:</b> 1014973	<b>Finding Ref. No.:</b> 2014-001												
<b>Finding Caption:</b> The District’s financial condition puts it at risk of not being able to meet financial obligations and maintain current service levels.														
<b>Background:</b> We reported concerns relating to the District’s financial condition in the past several audits. During the current audit, we noted the District has improved its general fund ending balance; however, it is still relying on interest-bearing warrants from the County Treasurer to cover expenses throughout the fiscal year.  The District’s ending general fund cash balance is as follows:  <table><tr><td>Fiscal Year</td><td>General Fund Ending Balance</td></tr><tr><td>2010</td><td>\$86,224</td></tr><tr><td>2011</td><td>\$142,484</td></tr><tr><td>2012</td><td>\$66,405</td></tr><tr><td>2013</td><td>\$45,701</td></tr><tr><td>2014</td><td>\$53,637</td></tr></table> The general fund ending balance as of May 31, 2015 was \$68,703.  The District was issued approximately \$130,000 in interest-bearing warrants through the Grays Harbor County Treasurer’s Office for fiscal year 2014 and \$338,000 in fiscal year 2015. In 2014 the District also issued \$70,000 in interfund loans. All interest-bearing warrants and interfund loans have been repaid.  Currently the District is also in binding conditions which requires it to contract with an administrator and submit a financial condition plan to the Office of Superintendent of Public Instruction.			Fiscal Year	General Fund Ending Balance	2010	\$86,224	2011	\$142,484	2012	\$66,405	2013	\$45,701	2014	\$53,637
Fiscal Year	General Fund Ending Balance													
2010	\$86,224													
2011	\$142,484													
2012	\$66,405													
2013	\$45,701													
2014	\$53,637													



**Status of Corrective Action: (check one)**☐ Fully  
Corrected☒ Partially  
Corrected☐ No Corrective  
Action Taken☐ Finding is considered no  
longer valid**Corrective Action Taken:**

*The District stated that financial condition for the start of fiscal year 2016 is not a good representation of their performance. They explained that the District usually has a lower fund balance at the beginning of the year, because expenditures are higher at the start of the school year with the cost of insurance and fuel. Also at the start of the year the district received apportionment based upon their estimated enrollment, which was conservative, and did not request the funding for actual enrollment till January. Based on this theory, the District should be at a better position at the end fiscal year 2016. The District has made notable improvement to correct the issue. However, poor financial condition is still present, and not fully corrected.*

## INFORMATION ABOUT THE DISTRICT

Lake Quinault School District No. 97 provides educational services to approximately 170 students in kindergarten through the 12th grade in Grays Harbor County. The District consists of one high school, middle school and elementary school, housed in one building. The District provides basic education, supplemental programs and learning opportunities for students such as special education, food services and transportation services.

An elected, five-member Board of Directors governs the District. Board Members are elected to staggered, four-year terms. The Board appoints a Superintendent to oversee the District's day-to-day operations as well as its 20 certified and 36 classified employees. The District operates on an annual budget of approximately \$3.2 million.

Contact information related to this report	
Address:	Lake Quinault School District No. 97 P.O. Box 38 Amanda Park, WA 98526
Contact:	Michelle Morrison, Business Manager
Telephone:	(360) 288-2260
Website:	<a href="http://www.lakequinaultschools.org">www.lakequinaultschools.org</a>

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for Lake Quinault School District No. 97 at <http://portal.sao.wa.gov/ReportSearch>.

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
<b>Deputy Director for Communications</b>	Adam Wilson <a href="mailto:Adam.Wilson@sao.wa.gov">Adam.Wilson@sao.wa.gov</a> (360) 902-0367
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>